

Lean Target Costing Comparisons

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1. Target Costing Software Application

Global competition relentlessly put cost pressures on manufacturers. Those who thrive and succeed are those able to remain a Cost-Leader in its Products. Whereas there are huge amounts data in the ERP, EQMS and MES systems, Costs and Manufacturing indices remain separate languages and apparently unbridgeable by traditional accounting methods. Target Costing methods can create critical LEAN measurements relevant to Top Management down to each Process Owner. LEAN is the elimination of all Losses and Wastes and the maximization of Output.

This standalone LEAN Target Costing Software uses LEAN principles of Costs and Wastes reduction to help achieve World-Class profitable manufacturing. Each Production Process with detailed Costs-of-Losses & Wastes Per Unit Product starting with identified critical products lines. Cost Reduction activities can also be tracked and viewed in both Costs & the Manufacturing / Waste Indices. This software is based on Toyota's Target Costing Management (TCM) and has been used recently in China and Asia in a Public Seminars and for Factory Cost Reduction Management in Asia.

– Target Costing Versus Traditional Costing Methods

The usual Standard Costing with Variance Analysis is highly unsatisfactory due to its inability to give accurate Product Costing in today's high mix / low volume Production environment. By the 1970s, this led to the almost simultaneous development of Activity-Based Costing (aka ABC) in the USA and Target Costing Management (aka TCM) in Japan.

However, by the 1990s, enthusiasm with ABC had dipped due its implementation complexity and maintenance costs to keep up to product process changes and consultant-dependent

project quality.

TCM since development in Japan had spread across most of Japanese MNCs and were developed with standardized terminologies and costing formulas which merges with well known manufacturing measurements such as OEE (Overall Equipment Effectiveness) and Capacity Utilization. It is designed for both Kaizen Cost Reduction Management in Continuous Improvement Activities such as (TPM, Lean, 6Sigma, etc...) as well as achieving lowest cost for New Product Development.

ZenPower International has developed its LEAN Costing software module since 2009 based on TCM and is currently the leading provider.

Comparative Comments	ABC Costing module (Activity Based Costing)	LEAN Costing (to drive Cost Reduction) (Toyota Target Costing - TCM)
1. Alignment to Kaizen Activities.	Cost of Losses <u>partly aligned</u> to structure of OEE Losses and Wastes.	Costs of Losses <u>fully aligned</u> OEE Losses & Wastes at individual Process Levels.
2. Pricing Data Accuracy	Captures Overhead costs by product lines <u>more accurately than Standard Costing</u> Method for better Pricing decisions.	Also captures Overheads by product lines. <u>Extremely accurate Product Costing</u> for reliable product Pricing decisions.
3. Consistency of Implementation standards.	Time Consuming, <u>possible errors and consultant-dependent</u> to define the detailed activities of Processes.	<u>Standardized formulas</u> follow the OEE Loss Tree structure of Materials, Man, Management organization & Machine losses.
4. Ease for User	Highly complex, <u>difficult for users</u> to understand	<u>Easy to learn</u> the Standardized definitions, terminology across processes, products.
5. Ease of Software changes	<u>Costly to maintain</u> to keep up to changes in Processes.	<u>Easy to maintain and adjust</u> to Process changes.